



January 28, 2010

To All Interested Stakeholders:

Planning and Development Department Comprehensive Fee Study Results and Recommendations

SUMMARY

The Planning and Development Department has completed a comprehensive fee study authorized by City Council to determine what fees would be required to achieve full cost recovery of its costs for providing planning entitlement and building permitting services. Through the contracted services of Matrix Consulting Group (Matrix), a fee study and final report indicate an overall subsidy is being provided to the fee payers, because the annual revenue collected for all fee related services is less than the estimated city-wide costs of providing those services. The fee study found that the Department is currently recovering approximately 69% of the estimated cost of providing most fee related services.

The Department has also worked with Matrix to identify Fee Supporting and Non-Fee Related Services that add to the full costs of providing services throughout the entire Department. Additionally, the Department has worked with Matrix to determine the best approach to providing funding to ensure the proper update and maintenance of the City's General Plan and related documents.

Based on the fee study findings, the Department is recommending approval of a Master Fee Schedule amendment to more accurately represent the cost of providing land use services, subject to review, discussion and approval of particular policy issues outlined in this letter. The Matrix Fee Study Final report may be found online on Important Links area (lower right side) of the Planning and Development Department's main page on the City's website, as follows:

www.fresno.gov/Government/DepartmentDirectory/PlanningandDevelopment/Default.htm

BACKGROUND

During the FY2008 budget process, the Planning and Development Department budgeted for the hiring of consultants to complete a Fee Study Analysis. The Planning Enterprise Fund's operating reserves had been decreasing for the thirteen months prior to the FY2008 budget process, and the Department had last updated its fee rate structure in fiscal year 1993. The primary objective of the Fee Study Analysis was to develop an updated rate structure that would allow the Department to meet its:

- Operational program needs;
- Operating reserve requirements;
- Need to remain competitive within the development community;
- Need to ensure that the rate structure complies with the requirements of Proposition 218;
- Need to provide the level of service and responsiveness that the development community requires.

In October 2007, the Department issued an RFP to identify qualified Financial Consultants to assist the Department in the review of its current fee rate structure, and the development and proposal of an updated fee structure. Fees to be updated included: inspection, plan check, permit, entitlement review, and related administrative charges.

Through the assistance of the League of California Cities, the Business Journal, other City departments, and the City's website, eighteen consultants were identified. Twelve consultant firms indicated an interest in receiving the RFP, and six consultants provided written proposals by the November 1, 2007 deadline. Proposals were received ranging from \$28,600 to 60,000; Matrix' proposal was \$34,500. After a detailed review and evaluation, the Department's selection committee selected Matrix Consulting Group based on the best overall value. On November 27, 2007, City Council approved a \$60,000 Professional Services agreement with Matrix Consulting Group, Inc. to perform the fee study and additional services.

In FY2008, as a result of the steady decline in Planning revenues and significant reductions in the Enterprise Fund's reserves from FY2006 to FY2008, the Department began holding positions vacant to reduce the fund's cost base. Beginning in July 2008 and throughout FY2009, planning revenue fell off dramatically from its FY2008 levels. As a result of the revenue reductions and cost base changes, it became apparent the Fee Study's original FY2008 Planning Department budget basis and assumptions should be updated.

During February through April 2009 (FY2009), Matrix and staff performed an interim update of the fee study, using the Department's reduced FY2009 budget as the new basis, to better determine a potential estimate of fee study revenue that may be included in the FY2010 budget. City Council subsequently approved the inclusion of an additional \$1,000,000 of revenue in the Department's FY2010 budget; which represented a portion of Matrix' FY2009 draft fee study estimates of the total potential revenue to be realized from a fee study increase.

On October 22 2009, City Council approved Amendment No.1 to the Professional Services Agreement with Matrix for the completion of the fee study and \$10,000 in related update services. Matrix and the Department again updated the fee study to the Department's FY2010 budget base to more accurately reflect the Department's significantly reduced: revenue, case volumes, staffing levels and costs.

FEE STUDY METHODOLOGY

Matrix utilized a cost-based analytical approach in calculating the full cost of providing case processing services, which follows best management practices to ensure fees are fair, equitable, and represent the estimated and reasonable costs of services, as required by the Government Code. The methodology is widely known and accepted "bottom up" approach to cost analysis, where time spent per unit of fee activity is determined for each position within the Department. The times are totaled and this estimate is then used in calculating all applicable City costs, which

typically include: direct salaries and benefits, operating services and supplies, department and divisional overhead, and citywide costs.

In addition, Matrix performed cross checks by collecting data on the estimated volume of activity for each fee to confirm the validity of the analytical model. This method provided assurance that 100% of staff resources were accounted for and allocated to either a fee for service or non-fee related category to ensure that services are not estimated that exceed budgeted resource capacity. Through a series of allocation models, Matrix divided the total estimated cost of providing the Planning and Development Department services into two main sections:

Fee related Services – Includes services charges on a flat (per unit) basis.

Fee supporting or other Non-Fee Related Services – Includes fee related services charged on a time and materials basis (e.g., calculation of Impact fees) or policy basis such as a percentage of original fee (e.g., Inner-City fee reductions), services considered as “indirect” support to providing fee related services, but not 100% recoverable in the fees for service (e.g., public counter information) and non-fee related services that are not recoverable in the total cost calculations of the fees (e.g., committee support).

FEE STUDY CONCLUSIONS

The final fee study report concludes that the City should: 1) adopt and implement a formal Cost Recovery Policy, 2) implement a mechanism for annual update of fees for service, 3) perform a complete periodic update of User Fee Study every three to five years, and 4) consider a surcharge on top of Building permits for recovery of costs associated with the update and maintenance of the City's General Plan. The report recognizes that whenever a cost recovery policy is established at less than 100% of the full cost of providing services, the funding gap must be recovered through other revenue sources. The automatic annual update, best based on the City's own cost structures such as labor increases, is to ensure the City receives appropriate fee and revenue increases reflecting growth in costs.

The total cost of Fee Related Services included in this report is approximately \$7.8 million. The Department currently receives revenue for these items in the amount of approximately \$5.4 million and is therefore, only achieving 69% of total cost recovery on these services. The report estimates that if the fees were set to capture 100% of their cost, additional revenue of approximately \$2.5 million could be realized. However, economic policy factors which sometime warrant adoption of fees at less than 100%, as well as reduced case processing volume, could reduce that additional revenue.

The study also focused on identifying Fee Supporting and Non-Fee Related Services that add to the full costs of providing services throughout the entire Department. The total annual cost of providing these services is approximately \$1,000,000 (excluding General Plan update and maintenance costs), some of which may be recovered through properly increasing the hourly billing rates to the Impact fee accounts. Included in this total are Advisory Board and Committee participation, Public information duties, City Council requests, the costs of calculating Impact Fees, and inner-City fee reductions. These costs, with the exception of the costs of calculating Impact Fees, should be recovered through funding sources other than case processing fees.

In addition, the study reviewed the Department's costs associated with the update and maintenance of the City's General Plan including its Master Environmental Impact Report (MEIR)

and related work. Most jurisdictions perform a comprehensive update on a 10 year update cycle. The Department's expected 10 year costs for update and maintenance of the General Plan and related work is \$7,600,000 or \$760,000 annually. Typical options for recovery of these costs are: 1) recovery of 100% of the annual costs via a Surcharge on top of building permit fees, or 2) recovery of less than 100% of the annual costs via a building permit Surcharge with the remaining unfunded amount subsidized by other City revenue sources such as the General Fund or Community Development Block Grants.

COMPARATIVE FEE SURVEYS

As part of the initial scope of work, Matrix conducted a survey of selected fees for eight comparable cities, as follows: Sacramento, Riverside, Bakersfield, Stockton, Modesto, Merced, Clovis and Visalia. A total of 15 of Fresno fees at 100% recovery were compared to the other Cities comparable fees. This survey indicated that, in general, the current City of Fresno fees were comparable to the fees charged in those eight cities. The survey also indicates that the proposed fees based on full cost recovery are among the highest of the Cities surveyed. Subsequent to this survey, Matrix indicated that six of the cities appear to have updated/increased their fees, one has stayed the same and one has reduced its fees.

Several issues should be noted with the use of market surveys in setting fees for service: 1) surveys do not provide adequate information of the relationship of a jurisdiction's costs to its fees and therefore should not be used for cost-based decisions, 2) each jurisdiction and its fees are different and many are not based on the actual cost of providing services, 3) the same "fee" with the same name may include more or even less steps than another jurisdiction, and 4) each jurisdiction provides varying levels of service. Matrix, therefore, recommends using surveys only as a secondary decision making tool rather than a tool for establishing acceptable price points.

POLICY CONSIDERATIONS

The City provides many types of general services to its constituents. While all services are beneficial to the community, some services can be classified as beneficial to all citizens, while others provide a more direct benefit to a specific group or individual. In the latter, services should be funded by user fee revenue. The results of the fee study provide a tool for understanding current service levels, the cost and demand for the services, and what fees can and should be charged.

The following are two central concepts regarding the establishment of user fees:

- Fees should be assessed according to the degree of individual or private benefit gained from the services, and;
- A profit making objective should not be included in the assessment of user fees (although a policy to insure a continuous reserve level may be included).

Contained within the Matrix' fee study is the recommendation to change the methodology with which Building and Safety services currently charges its fees. The recommended change is from a method based primarily on the Uniform Building Codes' valuation tables (fees based on the valuation, square footage and type of the building) to a cost-based methodology (fees based on the cost to perform the services). Many, including the Attorney General of California, believe the current use of valuation tables do not provide a clear nexus between fees charged and the level of service provided; this is discussed in depth on pages 18-20 of the Matrix Fee Study Report. Matrix and the

Department believe the cost-based methodology addresses the issues noted with the valuation-based method and it conforms to the intent of the Government Code. The cost-based methodology is, therefore, utilized for the Building and Safety case processing fees proposed in this report.

Policy for User Fees

User Fee Information per Matrix Fee Study

Division	Estimated Current Revenue (\$)	Estimated Full Cost Services (\$)	Surplus / (Subsidy) (\$)	Cost Recovery Percentage
Building	3,833,000	4,966,000	(1,133,000)	77%
Planning with Land section	1,535,000	2,860,000	(1,325,000)	54%
Total	5,368,000	7,826,000	(2,458,000)	69%

Given the City of Fresno's Planning case processing fees have not been updated since fiscal year 1993 (17 years), the above table reflects the significant increases (surplus/subsidy column) that would be required to allow the Department to achieve 100% Cost recovery.

It is commonly accepted that user fees are established at a level that will recover up to, but not more than, the cost of providing a particular service. There are programs, circumstances and services that may require a subsidy from other funding sources such as the General Fund. The following are some of the factors to consider in setting fees at less than 100% cost recovery:

- Limitations imposed by external agencies, such as time spent retrieving/copying public records documents;
- Encouragement of desired behaviors, such as historic preservation, green building, etc.;
- Affect on demand for particular services, such as promotion of small business, and Inner-City and Downtown development via fee reductions;
- To enable participation of individuals or groups that typically can not afford services, and;
- Benefits received by both the individual and community at large, such as General Plan support, etc.

The Department reviewed every fee from the fee study and is recommending that the following fees receive some type of subsidy as follows:

Fee Type - Recommendation

Special use CUP-Accessory living quarters for family members
 Variance, Security Related
 Variance, Single family residential lot
 Inner-City (I/C) Conditional Use Permits
 I/C Site Plan Review (SPR) Applications
 I/C Tentative Parcel Maps
 I/C Plan Amendment
 I/C Rezonings
 I/C Environmental Assessments (Categorical Exemptions)

I/C Variance, Security Related
 I/C Voluntary Pre-application review
 I/C Director Initiated Rezoning in case of Injustice or Hardship
 I/C Voluntary Change of Occupancy Inspection
 I/C Grading Permits
 I/C Relocation Inspection within or into Inner City Area

A comparison of the most common process fees' adjustments proposed is provided below:

<u>Fee Name</u>	<u>Current</u>	<u>Fee Study @100%</u>
Conditional Use Permit	\$ 6,230.00	\$ 7,521.00
CUP mid Rise	\$12,610.00	\$10,980.00 – fee reduction
Site Plan Review	\$ 4,940.00	\$ 6,351.00
Rezone	\$ 2,100.00	\$ 9,495.00
Plan Amendment	\$ 5,000.00	\$ 9,693.00
Environmental Assessment (Mit. Neg. Dec.)	\$ 1,210.00	\$ 8,022.00
Variance	\$ 4,200.00	\$ 7,370.00
Tentative Parcel Map	\$ 2,100.00	\$ 4,712.00
Tentative Tract Map – (per each 50 lots)	\$10,500.00	\$ 8,159.00 – fee reduction
Planned Community-Formal Application	\$80,500.00	\$28,394.00 - fee reduction
Planned Community-Preliminary Application	\$97,000.00	\$14,197.00 – fee reduction
Precise Plans	\$ 4,190.00	\$ 6,184.00

Matrix' specific fee amount recommendations can be found on Attachments A-D of the Matrix Final Report. Additionally, City Council will need to determine the amount and timing of the fee increases.

The fee study recognized the overutilization of personnel resources, indicated as a result of the fee model's comparison of actual Departmental case volumes as compared to the time required to process these cases, and recommends the addition of three full time equivalent positions (2 Building/1Planning) or the equivalent in outsourced support. The costs associated with these additional resources are included in the proposed fees, and the Department will request approval of these positions or outside support resources as part of Council's approval of the proposed fees.

The fee study indicates and the Department recommends City Council approve automatic annual increases for all case processing fees based on the Department's typical increases in costs. Additionally the Department recommends a complete update of the user fee study in three years, to revisit the entire analytical structure, estimates and assumptions of the previous fee study; subsequent updates to the fee study are then recommend on a five year basis.

Policies for Fee Supporting and Non-Fee Related Services

Other Costs per Matrix Fee Study

Other Planning Costs	Estimated Current Revenue	Estimated Full Cost Services	Surplus / (Subsidy)	Cost Recovery Percentage	Increase for 100% Recovery	Type of Change
Land Section's Labor Cost to Calculate Impact Fees	355,000	667,000	(312,000)	53%	88%	Increase Fully Loaded Hourly Rates

Special Projects, Committees, Public Information, etc. (w/ \$79K. Inner-city reductions)	0	331,000	(331,000)	0%	-	Other Funding Source
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The above table represents an additional \$1,000,000 in Departmental costs identified with Fee Supporting and Other Non-Fee Related Services that add to the full costs of providing services throughout the entire Department. The Planning Land Section's \$312,000 labor cost subsidy (shortfall) may be recovered through properly increasing the interdepartmental hourly billing rates to the Impact fee accounts. The \$331,000 in remaining Fee Supporting and Non-Fee Related Services costs (including Inner-City Fee reductions) should be recovered through funding sources other than case processing fees.

Policy for Potential General Plan Update and Maintenance Surcharge

General Plan Costs per Matrix Fee Study

Other Planning Costs	Estimated Current Revenue	Estimated Full Cost Services	Annual Surplus / (Subsidy)	Cost Recovery Percentage	Increase for 100% Recovery	Type of Change
General Plan, MEIR and related work Update & Maintenance Costs	0	760,000 per year for 10 years	(760,000)	0%	-	Surcharge and Other Funding Source

It is common for jurisdictions in California to employ "surcharges" on top of the fees to fund certain types of operational support costs and services. Surcharges are generally assessed as a percentage of fees or some other metric such as valuation, and are meant to recover costs from entire groups who receive overall benefit from services rather than individual clients or customers. One surcharge identified by the fee study is for the update and maintenance of the City's General Plan, MEIR and related work.

The General Plan, MEIR and related specific and community plans help guide the growth of the community in a consistent manner. Government Code 66014(b) allows local agencies to include the costs reasonably necessary to prepare and revise plans and policies that a local agency must adopt before it can make any required findings and determinations and supports general plan update and maintenance costs. Since a current General Plan and MEIR are needed to determine conditions of approval and entitlements, these costs are legitimate to recover in the programs and fees it supports.

The total cost determined for the comprehensive update and maintenance of the City's General Plan and MEIR is approximately \$7.6 million over a 10 year period or \$760,000 per year (after subtracting the contribution of the Sustainability Division's DOE/EECBG grant). In order to realize this amount of funding, a surcharge of 18% on all new construction building permits would need to be adopted. However, based on the fact that other fees will be increasing, and recognizing that other stakeholders also benefit from the General Plan, the Department recommends a General Plan Update and Maintenance Surcharge Fee of 9% (\$380,000) on all new construction building permits, with the remainder (\$380,000) recovered through other funding sources.

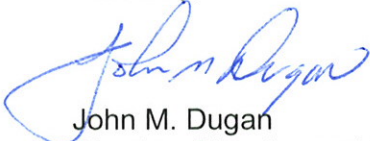
NEXT STEPS

You are invited to carefully review the attached Matrix Fee Study and provide comments and recommendations to the Department by Friday, February 26, 2010.

On Monday, March 1, 2010, staff will hold a review and discussion session with all interested stakeholders to answer questions and hear comments and concerns. Staff will be scheduling the public hearing, including staff's recommended changes to Fresno's Schedule of Fees, in March 2010. The Fees would go into effect 60 days after Council action.

If you have questions or wish to discuss the Matrix Study with staff before the March 1 meeting, please contact Craig Agabashian, Administrative Manager, at 559-321-8005.

Sincerely,



John M. Dugan
Director, Planning and Development Department